



THE ROLE OF THE FOREIGN CURRENCY SELLING WINDOW IN (THE INFLATION RATE IN IRAQ FOR THE PERIOD (2004-2020))

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Article history:	Abstract:
<p>Received: 24th November 2022 Accepted: 26th December 2022 Published: 30th January 2023</p>	<p>The research aims to analyze the impact of the foreign currency sale window on inflation rates in Iraq, for the period (2004-2020), as the foreign currency sale window is one of the most important indirect tools used by the monetary authorities in Iraq represented by the Central Bank of Iraq. The important tools that are used in rentier economies, including Iraq, in order to curb inflation by maintaining the general level of prices.</p> <p>The foreign currency sales window is a double-edged sword, as it is used to cover the shortfall in commodity supply through imports, and this represents the positive side of the window. As for the negative side, raising the level of window sales through window transfers or through cash sales contributes to depleting the level of reserves. From the foreign currency represented by (the dollar) through the leakage of hard currencies out of the Iraqi economy, and then the attack on the rights of subsequent generations.</p> <p>The study concluded that the token sale window has an indirect effect on inflation rates, as the increase in window sales contributes to reducing the inflation rate in Iraq.</p>

Keywords: foreign currency window, inflation rate, exchange rate.

THE FIRST TOPIC

The general framework of the study

First - the introduction:

High inflation rates are one of the problems facing the majority of developing and developed economies, especially developing countries that are characterized by weak production apparatus, including Iraq. Able to cover the demand, which necessitated resorting to the intended import in order to meet the internal needs of goods and services.

The transformations that took place in the Iraqi economy are considered as openness to international markets after 2003, after a long period of isolation from the outside world that witnessed an increase in the demand for the local currency. The monetary system at the internal level, as the openness to the outside world resulted in an increase in government expenditures and an increase in the demand for the local currency, which causes high levels of inflation, the adjustment of the exchange rate and its reflection on the general level of prices

Second - the problem of the study:

The problem of the study lies in the fact that the Iraqi economy always suffers from high rates of inflation, so we can formulate the problem of the

study with the following question: What is the effect of the window for selling foreign currency on the rate of inflation in Iraq?

Third- the hypothesis of the study:

The study starts from the hypothesis that the foreign currency selling window has an adverse effect on reducing inflation rates.

Fourth - the importance of the study:

The study derives its importance in terms of highlighting the dynamic mechanism used in foreign currency sales, and highlighting the means to achieve the requirements of absorbing the continuous general rise in prices in light of the positive and negative influences on the one hand and the scarcity of internal production on the other hand. The research also derives importance in highlighting On the amount of response by inflation to sales by the window.

Fifth- the research objective:

In order to answer the problem and test the validity of the hypothesis by proving or denying it, we will try to achieve the following:

1. A theoretical and analytical presentation of the research variables for each of window sales and inflation rates and the relationship between them.



2. Reviewing the digital evidence and indicators of the Iraqi economy during the research period for the window structure of sales and purchases, indices and inflation rate.

Sixth - Research Methodology:

In line with the nature of the subject, and to find out its details, and in order to achieve the objectives of the research, the study will be relied on (the deductive approach): through which the previous theories of the study are identified in describing the problem, studying it, and theoretical rooting for it from the general to the specific, which is based on collecting information And analyzed by relying on the (descriptive analytical) method.

Seventh- research limits:

1. **Spatial boundaries:** Iraq as a study model.
2. **Time limits:** Choosing the period (2004-2020), given that this period witnessed a change in the economic and political system and during which the economic sanctions that were restricting the Iraqi economy were lifted, which entered a new phase and a new orientation towards a market economy. This period also witnessed structural imbalances in the structure of Production The production structure is unable to cover the domestic demand.

THE SECOND TOPIC

Theoretical framework of the foreign currency sales window and inflation

First. The concept of the currency selling window: It is a kind of one-way currency auction, which represents the mechanism that some central banks follow as one of the methods of intervention in the exchange market, with the aim of covering the domestic demand gap for foreign currencies and thus stabilizing the exchange rate (Werner, 2001: 25-26). It is also known as one of the direct methods used by emerging economies with medium financial depth to intervene in the exchange market, with the aim of maintaining the stability of the exchange rate and the general level of prices in light of inflation targeting (Bank of Thailand, 2013: 328).

Second. Objectives of the currency selling window: There are several objectives concerned with the currency selling window, as follows: (Al-Mamouri, 2018, 72):

1. The window aims to curb inflation by directly influencing the growth of the money supply in order to limit the excessive increase in the money supply and as a result control the volume of liquidity by controlling the monetary base.

2. The window seeks to unify the mechanism of the exchange market through what the market desires of foreign currency to reach the stage of saturation and fill the desires of the private sector in order to finance all imports of foreign currency
3. The window works to reduce the gap between the official and parallel exchange rates, causing an improvement in the value of the currency.
4. The window is also one of the quantitative tools of monetary policy, as it is used by the central bank in the context of adopting market mechanisms in moving the economy, which leads to weakening the role of financial intermediation, making it the only tool that achieves stability in the exchange market as well as the general level of prices (Mahdi and Abdel Hassan, 2019 , 136).
5. The window also seeks to provide foreign exchange so that local banks can notify the opening of letters of credit, external transfer and letters of guarantee.
6. The window also controls the money supply, in addition to general liquidity. The window has become one of the most important indicators in addressing inflation by controlling price levels in order to make the local currency exchange rates more stable, as well as to prevent speculation.
7. The window worked to raise the exchange rate of the local currency, as this rise at the local level is a development of cash savings, and as a result, the latter is considered appropriate in the face of expected inflation.
8. The foreign currency sale window is one of the monetary policy episodes for the purpose of creating new investment methods in financing private sector trade in order to develop their investment and projects.

Third. Concept of Inflation:

Inflation is one of the important economic phenomena that national economies suffer from. There are several common definitions of inflation, including the steady and tangible rise in the price level. Prices As a result of the increase in demand, the value of money decreases and inflation prevails (Al-Wadi et al, 2010: 79).

Inflation is defined in its general concept as the large and continuous rise in the general level of prices, and these increases in prices remain for a certain period of time. This definition includes two main pillars: the first is the rise in the general level of prices. The second big one is that not every rise in prices is considered inflation (Abdul Hamid, 2007, 319).



Fourthly. Types of inflation: Inflation has many forms, the most important of which will be discussed:

1. Inherent inflation: Real inflation, as defined by (Kenz), is the case in which the additional increase in aggregate demand is not matched by an increase in production. In addition, (Keynes) believed that the elasticity of production is in aggregate demand, and this type was called actual inflation or Correct inflation (Al-Shammari, 2013, 404).
2. Creeping inflation: This type of inflation resulted from an increase in the gross domestic product of industrial economies in the twentieth century, especially since the end of World War II, as economies underwent an upward movement in prices, as it is described as being permanent and consecutive and also non-cumulative in the short term, as well It does not develop vertically, but takes a gradual upward form over the long term. This type of inflation is not the result of the increase in cash issuance or bank credit, but rather the continuous increase in prices (Abu Shawer and Mosaada, 2011, 281).
3. Violent inflation: This type of inflation can emerge from creeping inflation, but it is more severe, and to a high degree, as it occurs when the movement of rise in prices and wages is in a spiral of large and successive increases, so if the inflation rate is 5% annually and for a period Four years in a row, and this shows the maximum limits of creeping inflation, and thus if the economy exceeds those limits, this means that the economy is characterized as suffering from violent inflation, as money loses one of its basic functions, especially with regard to its capacity as a store of value as well as being a unit of account (Abu Taha, 2012, 78).
4. .Suppressed inflation: This type of inflation is related to the measures that the state takes upon itself, as it imposes decisive measures and certain restrictions that prevent the continuation of rising prices, such as the policy of compulsory pricing, as well as through the process of distributing some commodities with ration cards as well as government licenses, and through These government measures allow economic factors to control prices thanks to government facilities despite the high cash incomes, but they do not find a sufficient outlet to spend them, and as a result, it is not allowed to appear (Ahmed and Muhammad, 26-27, 2020).

5. Imported inflation: This type of inflation includes a rise in prices in a country as a result of the infiltration of global inflation through imports, especially in countries with an economy.

THE THIRD TOPIC

Analysis of the relationship between foreign currency window sales and the inflation rate in Iraq during the period (2004-2020)

First. The working mechanism of the window to eliminate inflation in Iraq:

The currency window sells the US dollar to the economic units against the Iraqi dinar, at a specific exchange rate, and in different ways (direct sales, remittances). Its sales of US dollars directly affect the exchange rate in the parallel market. The lower the sales, the lower the value of the Iraqi dinar. Therefore, the window mechanism used by the Central Bank is considered as a sterilization policy. This mechanism includes sterilization of the money supply resulting from the increase in government spending as a result of the increase in Oil revenues, and in the absence of this mechanism (the mechanism in force), inflation rates in Iraq will increase until they reach infinity.

The mechanism of the foreign currency window in Iraq, which affects inflation through the exchange rate of the Iraqi dinar, is working on the process of monetary sterilization. The real value of the Iraqi dinar exchange rate due to the increase in the supply of the Iraqi dinar, therefore, the injection of foreign currency through window sales, this matter works to absorb or withdraw liquidity and thus decreases the growth of the money supply of the local currency (the Iraqi dinar) and is matched by an increase in the dollar supply, so it rises The value of the Iraqi dinar exchange rate against the dollar, and its purchasing power rises, and as a result it curbs inflation, especially since inflation in the Iraqi economy is formed through imports and is known as imported inflation, since the consumer basket depends very much on imports from abroad.

Second. Foreign currency window sales structure:

After the one-sided window structure depended on direct sales, it became two-sided. After 2008, the Iraqi Central Bank used the remittance method as one of the methods of selling through the window in order to encourage banks with the aim of reforming the banking system in Iraq, as direct sales decreased and remittance sales of dollars increased (Dagher and Muhammad, 2017, 310).



It is clear from Table (1) that the structure of window sales was in two parts, namely direct sales and transfer abroad, and it is clear that the percentage of window sales by transfer (transfer) dominated sales from dollars very significantly, as its average during the period (2009-2020) was by (82.35%), and therefore hawala was largely controlling the sales of foreign currency in the Iraqi Central Bank.

While the sales of the window by the cash method constituted 14.09%, which constitutes the lowest percentage of the Central Bank's sales through the foreign currency window in Iraq.

As it is clear from Table (1) the structure of the foreign currency window during the period (2009-2020), and as we mentioned previously that the foreign currency window was dependent on direct sales (Cash), until 2009, and the transfer method was introduced in its mechanisms so that the structure of the window is a component From direct sales and transfer.

Cash sales of hawala amounted to \$4,569 million, or 13.44%, in 2009, while hawala sales amounted to \$33,992 million, or 86.56%, in the same year.

The remittances continued to increase in the percentage of their sales until they reached 96.33% of the total sales in 2011, and most of these remittances were going to banks that have a contribution to the window for the purpose of financing imports from abroad, which are in the form of goods and services for the private sector.

As shown in Table (1), the percentage of cash sales increased to reach 28.15% in 2014, and this percentage is considered the largest percentage of sales by cash method during the study period, as a result of the increase in demand for the dollar for travel and medical purposes as a result of the military operations that Iraq was exposed to in that year.

Then, cash sales decreased again as a percentage of total sales, and hawala dominated the largest percentage of sales.

Table (1) The foreign currency window sales structure in Iraq during the period (2009-2020) (million dollars)

time series	window sales (transfer)	window (Cash) sales	Total currency window sales	Cash to Total % Sales	Remittance percentage %to total sales
2009	29421	4569	33992	13.44	86.56
2010	36067	2192	36171	6.07	93.93
2011	39800	1457	39798	3.67	96.33
2012	44809	3655	48649	7.53	92.47
2013	41499	12338	55678	22.97	77.03
2014	37165	14562	54463	28.15	71.85
2015	38315	5989	44304	13.52	86.48
2016	28834	4690	33524	13.99	86.01
2017	32849	9352	42201	22.16	77.83
2018	38345	8788	47133	18.65	81.35
2019	45351	5774	51125	11.29	88.71
2020	40711	3369	44080	7.64	92.36
average				%14.1	%85.9

Source: Prepared by the researcher based on the Central Bank of Iraq, the official website, annual reports, different years (2004-2020).

During the period (2015-2020), the percentage of direct sales, respectively, was (13.52%, 13.99%, 22.16%, 18.65%, 11.29%, and 7.64%). The percentage of direct cash sales decreased in 2020 due to the decrease in the demand for the dollar, whether

for travel or other purposes. The treatment is a result of the closure of the borders and the occurrence of the Corona crisis, in addition to the absence of any purchases for the Central Bank from the Iraqi Ministry of Finance in the months of August and September of



2020 (the annual economic report of the Central Bank of Iraq, 2020, 29), noting that the average percentage of cash sales during the period (2009- 2020) was 14.1%.

As for the percentages of hawala sales, during the period (2015-2020), the percentages of direct sales, respectively, were (86.48%, 46.86%, 74.35%, 81.35%, 88.71%, and 92.36%).

Note that the average percentage of hawala sales during the period (2009-2020) was 85.9%.

From the foregoing, it is clear that cash sales were small compared to remittance sales, which were at high rates, and this puts the window's sales structure containing imbalances. The reason for this is that most of the transfers to banks abroad are a result of import financing to fill the lack of production at home, where, as we mentioned previously, productivity in the Iraqi economy, it is characterized by great weakness and its inability to achieve real added value at the required level that is able to cover domestic demand.

Therefore, we must work to follow economic policies that work to bring about a change in the structural structure of the Iraqi economy and not to leave the oil sector alone controlling the largest percentage of the gross domestic product, as it is a depleted resource and its prices fluctuate from time to time and lead to imbalances in the Iraqi economy.

Third. The impact of the currency window on inflation in Iraq during the period (2004-2020):

The Central Bank of Iraq owns the foreign reserves obtained by buying oil dollars from the Iraqi finances (the monopoly of the dollar) in exchange for the dinar for the purpose of spending it on items related to the Iraqi government's budget, and therefore the Central Bank is considered primarily responsible for financing imports for the private sector (the market), and thus the window works to finance Imports and works on monetary sterilization at the same time, as the central bank is responsible for the monetary mass and managing it through the buying

and selling process of the dinar, as cash financing in dollars is directly linked to the stability of money (the local currency) and then control of the monetary mass and inflation levels (Central Bank of Iraq, Foreign currency window, 2019, 1), and since the Iraqi inflation, as we mentioned above, is the inflation of the lack of imports with the highest rate of inflation in the economy, and therefore sales of foreign currency by the Central Bank have a major role in controlling inflation rates by raising the value of the local currency and table (2) shows the relationship between currency window sales, the exchange rate, and inflation in Iraq during the period (2004-2020), as follows:

It is clear from table (2) the relationship between foreign currency sales and the exchange rate of the Iraqi dinar and inflation for the period (2004-2020), as it is clear that after 2004 and as a result of the commercial openness of Iraq to the countries of the world on the one hand and the increase in employee salaries by increasing the government's current spending led to Increased demand for goods and services in light of the weakness of the production base in Iraq, which led to a rise in inflation rates to reach 53.2% in 2006, after it was 26.9% for the year 2004, offset by few sales from the window, as sales amounted to

The window is \$11,175 million at an exchange rate of \$1,391 per dollar for 2006.

While foreign currency sales increased to reach 33992 million dollars in 2009, at an exchange rate of 1170, so that the Iraqi Central Bank, through its monetary policies represented by raising window sales and raising the value of the Iraqi dinar, could curb inflation to reach a negative rate (2.8%).

Despite the continuous rise in foreign window sales, inflation rates rose again to reach 6.1% in 2012 after it was negative (2.8%) in 2009. The reason for this is due to the rise in government spending, as budget expenditures amounted to (105) trillion dinars as a result of raising All expenditure items in the Iraqi general budget (Al-Ani, 437, 2020).

Table (2) Currency window sales, exchange rate and inflation in Iraq during the period (2004-2020)

time series	Official exchange rate (base)	Window sales \$ (million)	% Inflation rate
2004	1460	6108	26.9
2005	1474	10462	36.9
2006	1391	11175	53.2
2007	1217	15980	30.8
2008	1172	25869	2.7
2009	1170	33992	(2.8)
2010	1170	36171	2.4



2011	1170	39798	5.6
2012	1166	48649	6.1
2013	1166	55678	1.9
2014	1166	54463	2.2
2015	1182	44304	1.4
2016	1182	33524	0.5
2017	1184	42201	0.2
2018	1182	47133	0.4
2019	1182	51125	(0.2)
2020	1304	44080	0.6

Source: Prepared by the researcher based on the Central Bank of Iraq, the official website, annual reports, different years (2004-2020)

As for during the period (2013-2018), foreign currency sales began to decline, after it was 55678 million dollars for the year 2013, and the exchange rate of Iraqi dinars was 1166 per dollar, and it reached 33524 million dollars, and the exchange rate of Iraqi dinars was 1182 per dollar, offset by inflation rates of 1.9% for the year 2013 and 0.5% for the year 2016, which are acceptable inflation rates. Despite the decrease in window sales, the inflation rate decreased with it, and the reason for this is due to the decrease in public expenditures for the budget on the one hand, the decrease in global oil prices and the decrease in oil export rates as a result of the government authorities losing many oil refineries as a result of the military operations that took place It happened in Iraq in 2014 and its accompanying economic effects.

Foreign currency sales returned to raise their sales rates at the exchange rate of Iraqi dinars 1182 in 2019 as a result of a slight rise in oil prices, which raised the revenues of the oil dollar, which contributed to raising foreign reserve rates with the Central Bank, and increasing window sales to reach 51125 million dollars for the year 2019 to cover imports And work on the monetary sterilization mechanism, at a negative inflation level (0.2%), thus reaching a high level of monetary stability.

As for the year 2020, the Iraqi economy faced the double crisis, as the Iraqi Central Bank called it, which is both the drop in oil prices and the Corona crisis, which led to a decrease in oil revenue from the dollar, so the effective sales decreased to 44080 million dollars at an exchange rate of 1340 per dollar, which was accompanied by a growth in the inflation rate by 0.6 % due to the decline in sales by the central.

THE FOURTH TOPIC

Conclusions

1. There are many negatives that accompany window sales of the dollar, which is considered a drain on the financial resources derived from oil sales, and

therefore this is considered a violation of the rights of subsequent generations, since the oil resource is a right for all generations and not only for the current generation, and the leakage of hard currencies (dollar) due to imports leads to a reduction in foreign reserves, because currency sales are part of foreign reserves, and thus weaken the strength of the local currency.

2. The cash sales were small compared to the remittance sales, which were at high rates, and this puts the window's sales structure containing imbalances. The reason for this is that most of the transfers to banks abroad are a result of import financing to fill the lack of production at home, where, as we mentioned previously, productivity in The Iraqi economy is characterized by great weakness and its inability to achieve real added value at the required level that is able to cover domestic demand.
3. The window for selling foreign currency, despite its positive effects in financing imports and maintaining the level of the local currency, has a significant negative impact on foreign reserves, which are the basis of economies, especially emerging and rentier economies that are exposed to repeated crises due to their economic instability.
4. The causes of inflation in Iraq were as a result of imported inflation on the one hand, the economic, security and political conditions on the other hand, the high rate of public expenditures on the third hand, and weak internal productivity (in the Iraqi economy) on the fourth hand, all of which had an impact on creating a demand gap for goods and services Causing price hikes leading to inflation.

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